

FEDERAL OPERATION OF RAILROADS DURING THE WAR

BY .

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CONTENTS FOR MAY, 1919

I. THE RELATIONS OF RECENT PSYCHOLOGICAL DEVELOPMENTS TO ECONOMIC THEORY	Z. Clark Dickinson
II. LATIN AMERICAN FOREIGN EXCHANGE AND INTERNATIONAL BALANCES DURING THE WAR	John H. Williams
III. POSITIVE CONTRIBUTIONS OF SCIENTIFIC MANAGEMENT	Henry H. Farquhar
IV. INDEBTEDNESS OF PRINCIPAL BELLIGERENTS	Louis Ross Gottlieb
V. THE IRON-ORE PROBLEM OF LORRAINE	Abraham Berglund
NOTES AND MEMORANDA:	
A Peculiar Eight Hour Problem	William Z. Ripley
Cost of Production and Price	Philip G. Wright
An Eminent Economist Confused	H. G. Brown
A Rejoinder	T. N. Carver
A Re-Rejoinder	H. G. Brown

CONTENTS FOR AUGUST, 1919

I. FEDERAL OPERATION OF RAILROADS DURING THE WAR	Frank Haigh Dixon
II. NORMAL PRICE AS A MARKET CONCEPT	E. G. Nourse
III. ON STABILIZING THE DOLLAR	Edward T. Peters
IV. GOVERNMENT CONTROL OF SUGAR DURING THE WAR	Joshua Bernhardt
REVIEW:	
Walsh's The Climax of Civilization; Socialism; and Feminism	T. N. Carver
NOTES AND MEMORANDA:	
One of the Physical Foundations of Economics	Julius Davidson
A Definition of "Conditions of Labor"	Paul H. Douglas
Another Reason Why War Prices Are High Prices	G. O. Virtue
An Oversight in the Theory of Incidence	H. G. Brown

FEDERAL OPERATION OF RAILROADS DURING THE WAR

SUMMARY

Reasons why the roads were taken over by the government, 577. — The contract, 582. — Federal operation, 587. — Labor conditions, 602. — Rate increases, 606. — Capital expenditures and the revolving fund, 609. — Relation of the railroad administration to existing regulating agencies, 611. — The future, 617.

ON December 26, 1917, the President of the United States issued a proclamation taking possession of the railroads of the country, under the powers granted by the Army Appropriation Act of August 29, 1916. As a preliminary to this profoundly significant step, there were many months of strenuous railroad history. In April the Railroads' War Board had assumed direction of the railroads, under a resolution signed by nearly seven hundred executives, in which the signatories pledged themselves during the war to coördinate their operations in a continental railway system, "merging during such period all their merely individual and competitive activities in the effort to produce a maximum of national transportation efficiency." As the resolution indicated, they desired to be of the greatest service possible in the struggle upon which the country was about

to enter. But they had another object, frankly expressed by more than one executive; they proposed to demonstrate to the country that a coöperative organization of private railroad corporations could so successfully meet the situation that government interference with operation would be unnecessary.

Their failure to effect this demonstration was due to many causes. Probably the most potent of these finds its source in the fundamentally competitive atmosphere in which the railroads have always operated. While in many respects actual competition between individual carriers had reduced itself to matters of service alone, yet our entire body of legislation has been constructed on the competitive theory, and we have forbidden railroads to make agreements that would in any way relieve them from the consequences of this principle. When railroads serving the same termini are not permitted under the Interstate Commerce Act to enter into any agreement for the division of earnings, it was not only natural but justifiable that a carrier should resist attempts on the part of the Railroads' War Board to divert traffic to less congested routes. Only an exaggerated patriotism would induce a corporation without compensation to hand its traffic over to a rival. Other conflicts of a similar sort between the competitive and the coöperative principle blocked the attainment of complete success.

Again the railroads were facing a serious financial problem. They had for some years previously been appealing for higher rates, with indifferent success. They were now faced with an unprecedented traffic, and consequently a need for extensions and betterments as well as for generous maintenance, all to be met at rapidly increasing prices of materials. Looming on the horizon were the demands of labor for increases in wages

to meet the steadily increasing cost of living. Increases in rates might have been granted by the Interstate Commerce Commission similar to those later imposed by the Federal Railroad Administration, but aside from the delays involved in the necessary legal procedure — the opposition of shippers, the protracted hearings, the time required for a considered opinion by the Commission — there were the endless difficulties involved in the relations with state commissions. Moreover, altho some of the increasing expense of operation might have been met by such increases in rates, the additional income would have gone but a little way toward obtaining the additional facilities and the plant extensions required. And there was little likelihood of securing capital directly. For it is very doubtful whether their income accounts would have so improved in appearance as to attract investors, in the face of the patriotic appeals for the contribution of all private savings to the winning of the war. Neither was there assurance that even if capital could be lured into the railroad industry, the needed facilities could be obtained. Steel and other materials were being “rationed” and cars and locomotives were going abroad for more direct and immediate war service.

On the operating side, there were serious difficulties that lent weight to the argument for government management. Traffic in the eastern section of the country was unprecedented, including the food and munitions going abroad, the raw materials and coal for the manufacturing section, building materials to supply government contracts, and all the varied and unusual demands created by the war emergency. This traffic was originating in and passing through the most congested section of the country, and that for export was routed without restraint to the usual outlets, because as yet coöperation with shipping had not proceeded far

enough to make any other policy possible. Priority for government freight, a privilege in many cases grossly abused, with no central authority to determine the degree of priority, seriously increased the congestion. Providence added to the complications by a winter almost unknown in its severity. This not only hampered rail transportation, but blocked the marine terminals and stopped the flow of traffic. Motive power kept long in service because there was little opportunity for adequate repairs, was crippled and inefficient. There was no satisfactory coöperation between rail and water service, and many of the Atlantic coastwise vessels were withdrawn by the War and Navy Departments, and the traffic thrown on the railroads.

The operating troubles were almost wholly in the east, and the government might have assumed control only of those carriers that were specifically required for the task in hand, instead of taking possession of the system as a whole. But aside from the fact that it was impossible to anticipate at that time how extensive would be the ramifications of the war needs, and just what lines of railroad would be required, the government might have initiated serious controversies if it had selected certain roads whose earnings were to be guaranteed and whose labor was to be assured the market wage. By the so-called Railroad Control Act approved March 21, 1918, which put the proclamation of the President into effect, it was provided that the President might turn any road back to its owners before July 1, 1918, by which time presumably the government would be in a position to judge whether it would find it wise to operate the system as a whole. Whether if properly backed by the government in their financial policy, in their dealings with labor, and in hurdling the many restrictive statutes federal and state, the railroads could have operated

satisfactorily under private management, is an academic question that need not detain us here. That there was some friction among the carriers themselves and a lack of coöperation on the part of a few, is common knowledge. Yet this might have been overcome in time but for the more serious difficulties. It would probably have been impossible to obtain a suspension of existing restrictive statutes; it was the belief of the President and of many members of Congress that financial aid could not be obtained for the railroads from the government unless the government were in complete control. As the President said in his statement accompanying the proclamation that took over the railroads, "The financial interests of the government and the financial interests of the railways must be brought under a common direction."

With a poor prospect of a prompt increase in rates, a dubious investment market for railroad securities, and a stringency in the materials and facilities needed, the one policy that gave any promise of saving the day was the use of existing facilities and equipment to their absolute capacity regardless of ownership. As a war measure, the taking over of the railroads was, under the circumstances, inevitable and a wholly wise procedure. To quote the President again, "It was thought to be in the spirit of American institutions to attempt to do everything that was necessary through private management, and if zeal and ability, and patriotic motive could have accomplished the necessary unification of administration, it would certainly have been accomplished; but no zeal or ability could overcome insuperable obstacles, and I have deemed it my duty to recognize that fact in all candor, now that it is demonstrated, and to use without reserve the great authority reposed in me. A great national necessity dictated the action, and I was therefore not at liberty to abstain from it."

It should be stated at the outset, that in appraising the results of the past fifteen months of government operation, no attempt will be made to determine from this experience the desirability of permanent nationalization. The period has been a wholly unprecedented one, from which no valid conclusions may be drawn. It is not surprising that many individuals and many journals opposed to government ownership, and fearful that once the government takes hold, it will never let go, should have watched every move with intense interest, and seized upon every unfavorable development as an argument to support their contentions. It is not so clear why those associated with federal operation should have made predictions concerning the results of unified operation that they could not hope to realize. Beyond their natural desire to make the railroads contribute to their utmost in winning the war, they could have had no other wish than to do the best possible job under the difficult circumstances, and the necessity constantly of explaining away unfulfilled promises has only laid them open to the charge of cherishing an ulterior purpose.

THE CONTRACT

The President's proclamation ordered the Director General to draw up agreements for compensation, based upon an annual guaranteed rental above depreciation and maintenance, equivalent to the average of the annual net operating income for the three-year period ending June 30, 1917. It was declared that nothing done under the proclamation should impair the rights of stockholders and bondholders to receive just and adequate compensation for the use of their property. Regular dividends and interest were to be continued until and unless the Director General determined otherwise, and

subject to his approval carriers might renew and extend existing obligations. The Federal Control Act, approved March 21, 1918, ratified the terms of the proclamation — that the compensation should be an annual sum equivalent to the average of the net operating income for the three years ending June 30, 1917, to be ascertained and certified to by the Interstate Commerce Commission. It was enacted that every agreement should contain adequate provision for maintenance of property, for its return in substantially as good condition as at the beginning, with provision for reimbursement to the United States for the cost of additions and betterments not properly chargeable to it. Power was given to the President to make special contracts when abnormal conditions, such as a receivership, prevailed during the “three-year test period.” The federal administration was to pay interest on any funds expended by a carrier for improvements and extensions, if made with the approval of the President. No carrier without presidential approval could declare a dividend in excess of its regular rate during the three-year test period. A “revolving fund” of \$500,000,000 was created, out of which, in addition to meeting the expenses of federal control and the compensation of carriers, provision might be made for terminals and equipment. The President might order any carrier to make additions and betterments or provide terminals and equipment, and might make advances from the revolving fund with proper provisions for interest and reimbursement. If the contract was not accepted by the carrier, the President was authorized to pay to it 90 per cent of the estimated compensation, provision being made for adjudication of the issue by a board of referees appointed by the Interstate Commerce Commission, with final appeal to the Court of Claims.

Under the guidance of this statute, negotiations were undertaken between the Railroad Administration and the carriers for the construction of a "standard contract." So many were the issues involved that the final form was not agreed upon until October 22, 1918, and so varied were the problems of adjustment and the claims for special consideration on the part of the individual carriers, that many of the companies have not yet signed the agreement. Many carriers have announced their intention to follow the method of adjudication provided by the statute.

It is unnecessary to enter into the technical details of this agreement. It follows the provisions of the Federal Control Act already described, and only such points need to be mentioned as will throw further light upon these statutory requirements. The Railroad Administration agreed to meet operating expenses and normal taxes, and to maintain the property and equipment up to the standard prevailing when the road was taken over; but if during the test period, the maintenance appropriations had not been sufficient to put the property in condition for safe operation, additional maintenance up to a normal standard might be provided at the expense of the company. Improvements to railroad property and new equipment were chargeable to the roads, and were to carry interest as rental payable by the Director General, but strictly war improvements were a charge against the government. The annual compensation, payable whether earned or not, was not subject to any deductions that would prevent the company from supporting its corporate organization, keeping up its sinking funds, paying taxes, rents and interest on loans. These charges being provided for, the government reserved an emergency right to make deductions from the remaining compensation to satisfy indebtedness to it.

Such power was to be used only when no other means was available, and when its exercise would not interrupt unnecessarily the regular payment of dividends, where such dividends had been disbursed during the test period. Finally, the contract specifically stated that none of its provisions should be construed as expressing or prejudicing the future policy of the United States concerning railroad ownership, control or regulation.

Protracted negotiations took place before the railroads finally accepted the clauses relative to the right of the government to restore deferred maintenance, and to use a part of the carrier's compensation to pay its debt to the government. But the most insistent contention of the carriers, which was finally denied, was the right to litigation at the end of federal control on the question whether they had suffered damage by reason of diversion of business. It was held by the Director General upon advice of the Solicitor General, that the roads having been taken over for war purposes, Congress intended that the authorized compensation should cover this element.

The "standard return," based upon the average operating income of the three fiscal years previous to 1918, undoubtedly worked injustice to individual roads. For example, the roads of the Southeast, which had been slowly building up their earning capacity, had not in these three years realized fully the results of their investment policy. Yet on the whole, the bargain was probably as fair a one as could have been drawn up for the railroads in general. Nineteen-fifteen was as lean a year as 1917 was a fat one, and the three years when averaged together roughly approximated a just return. And when all the conditions are taken into account, particularly the financial situation that the railroads faced at the beginning of 1918, the transfer of the railroads to the

government must be regarded as distinctly favorable to the interests of railroad stockholders. There is little doubt that the government by this act saved all but the strongest roads from a condition bordering on insolvency.

The Federal Control Act placed within the class of roads entitled to its benefits all independently owned and operated carriers competing or connecting with the roads that had been placed under federal control by presidential proclamation. These were the so-called "short lines." They were in few instances of any importance to the government for the war emergency, yet their very existence was threatened by a policy of unification which would result in a diversion of their traffic. By Section 14 of the Control Act, the President was empowered to relinquish prior to July 1, 1918, any roads not needed, and thereafter any others by agreement with the carriers. In accordance therewith, on June 29, 1918, there were relinquished from federal control 2161 short-line railroads, including standard railroads, plant facilities, electric lines, and switching and terminal roads. By restoration and further relinquishment under agreement, the net number relinquished stood on January 1, 1919, at 2110.

For the protection of these relinquished roads, the administration has prepared a coöperative contract open to signature at will. Signatories are guaranteed a fair division of joint rates, an equitable allotment of cars, and the right to the use of government purchasing agencies. Moreover, in contrast to the refusal of the government to recognize any claim on the part of the controlled railroads to damages for diversion of their business, the Director General agrees to reimburse these short lines in cash for any revenues on competitive traffic lost during 1918, and guarantees for the future to

deliver such amount of competitive traffic to them as is necessary to insure the quantity carried during the three-year test period. Thus far the contract has been taken advantage of by relatively few of the relinquished roads.

FEDERAL OPERATION

From the summary already made of the reasons why the roads were taken over, it appears clear that the main object in view by the Federal Railroad Administration ¹ was that of making the railroads a part of our line of communications and an effective weapon in the conduct of the war. This meant first, that the transportation system of the country must be operated as a unit and made to serve our war needs, with only secondary regard to other considerations, and second, that in the accomplishment of this task, there should be no waste transportation if it could possibly be avoided. We were seriously short of facilities, and the task could be accomplished only if every mile of track and every unit of equipment were used to their utmost capacity and in the most efficient manner. Yet as we shall see later, the demand for speed and efficiency was not always consistent with the requirements of economical railroading.

Of the many methods inaugurated for securing economies in service, those which brought the largest returns in money, if we may rely upon the estimates of the Administration, have been the elimination of passenger service, the unification of terminals, and the reduction in size and expense of the organizations of the individual railroads.

That there was ample justification for elimination of passenger service as a war measure needs little demon-

¹ For the organization of the United States Railroad Administration, with a summary of its accomplishments for the first seven months, see Brice Claggett, in *Quarterly Journal of Economics*, vol. xxxiii, p. 188, November, 1918.

stration. Even before the war, there was much comment concerning duplicate passenger service out of the large cities, particularly those of the Middle West, like Chicago, St. Louis, and St. Paul, and now when every available locomotive and car was needed either for the handling of food or munitions, or in transporting troops to the camps and the embarkation points, and when track room at the inadequate terminals was at a premium, the Administration was well within its rights in introducing somewhat ruthlessly a severe cut in service. The saving appears to have been the largest in the west and northwest, where passenger accommodations had been the most liberal, and in the Eastern Region where the traffic was heaviest. The method followed was to eliminate duplicate service, and in many cases to lengthen the schedules of limited trains and impose upon them the duty of handling local traffic. The hours of trains on parallel routes were "staggered" and railroad tickets were honored by alternative routes. Some trains with light earnings were discontinued altogether. In the case of transcontinental traffic, the fastest service was assigned to the most direct route, the others being used for local traffic. The Director General estimated the annual saving in passenger train miles as 67,291,000, or a little over 10 per cent. Some of the Regional Directors have computed the saving at \$1.00 per mile.

This reduction in scheduled train service made possible a notable achievement of the Administration in its troop movement, in which from January 1, 1918, to the signing of the armistice, there were transported 6,496,150 men. From 4500 different points, 1,785,342 drafted men were moved to training camps and fed in transit. Of the total movement, 4,038,918 men in 9109 special trains traveled an average distance of 855 miles, the largest long distance troop movement in history. Into

the crowded embarkation ports were brought 1,904,014 men without interference with other traffic. During one period of 30 days, more than 20 troop trains daily entered the port of New York.

That the policy of reduction of passenger service has resulted in very appreciable inconvenience and discomfort to the traveling public, every one can testify, but it was borne with cheerfulness as a war necessity, and for that reason only. That the Administration fully appreciates this fact is evident in the generous restoration of pre-war service that has already taken place. To what extent the roads can or will eliminate the waste of passenger transportation when they are again in possession of their properties remains to be seen. Many executives have contended that the wasteful duplicate service is the result of an inability to agree upon a more efficient schedule of operation, without incurring the penalties of the Anti-trust Act. Whether or not this is true, there is a vast difference between the ability to do a thing, and the desire to do it. The removal of any possible restrictions of law would not compel railroads to arrange their trains on an alternating schedule, or to assign to some one road the limited service and leave to the others the local service. The desire of each road to offer the best service at the most popular hour of the day is the cause of transportation waste, and the removal of legal restrictions with an opportunity to pool earnings, would not provide compensation for a loss of the advertising value of good train service, nor could it eradicate the natural and commendable spirit of emulation.

In the unification of terminal facilities, the opportunities for radical economies are not so abundant as in the reduction of passenger service. While many of the competitive practices have been done away with, the physi-

cal barriers to a thoro unification cannot be removed. The growth in population and the increase in land values has intensified a situation which was essentially uneconomic and unscientific from the beginning, and which is due to the competitive and individualistic character of our railroad development. On the side of passenger service, the most striking case of unification is found in the opening of the Pennsylvania Terminal in New York to the Baltimore and Ohio and the Lehigh Valley railroads.

For the control of freight traffic, terminal managers were appointed at all the important terminal points. While the actual physical reconstruction of terminals was of course impossible, there was opportunity for saving in switching costs and consequently increased speed in handling. Efforts have been made to route traffic so as to ensure delivery with the minimum of switching, and when switching has been required, to confine the service to as few carriers as possible. It was found for example, that in some cases in the Chicago terminal, as many as nineteen different railroads were serving one plant or district solely as a result of competition. Wherever possible, switching is now confined to one line. In the Southwestern Region, the switching work formerly done by 109 roads is now handled by 54.

The weakest point in our present operating machine is found in the state of the terminal facilities, a condition growing rapidly more serious with the increase in population and the lack of available space. It is a comparatively simple problem to increase trackage on the line, but the benefit of such increase is altogether neutralized if cars cannot be handled expeditiously at terminals. As a matter of fact, it may happen that additional business results in an actual loss to the carrier accepting it, because it slows up its entire service, and often only

serves to create congestion and stagnation. It has been the primary object of the carrier to meet the wishes of the shipper, to provide him with equipment promptly as called for, and to accept his consignments without question. In fact, this is the obligation imposed upon the carrier by law, and while there is likewise imposed the legal obligation to deliver, yet the accent both in legislation and in practice has been placed upon the act of getting goods started on their way, regardless of the capacity of the terminal to take care of the cars or of the consignee to unload. The only relief heretofore has been the resort by terminal roads to the crude and unsatisfactory method of embargoes, which have simply forced the congestion back along the line, and have produced wave-like movements of traffic, difficult to handle and creating conditions unsatisfactory to shippers. Under federal operation the so-called "permit system" was introduced for certain kinds of traffic, especially that essential to the war, under which goods could not be accepted for transportation until assurance was received that the consignee could accept and unload without car delay. This system, in the management of which all government departments coöperated, alone made possible the handling of the immense war traffic without congestion. All War and Navy Department shipments were handled on a permit basis. All export traffic via Atlantic, Gulf, and Pacific ports was and is still handled in this manner, and the system was applied during the war to domestic shipments to Philadelphia, New York, and Baltimore. Wheat and hog shipments to primary markets have been stabilized by this process. Except for export shipments and the handling of grain, there is at present no further need for the holding back of traffic, but the success of the experiment has been so decided that it should be carried over into normal times to be

applied in periods of emergency. What embargoes have not been able to accomplish, might be secured through a bureau of the commission such as the Car Service Bureau, charged with the duty of watching congested terminals, and exercising a control over traffic that would assure a more steady flow, and when necessary, divert traffic through gateways that were better prepared to handle it. In connection with the solution of this problem, the Railroad Administration also undertook the coördination of the marine departments of the different railroads and the use of all piers regardless of ownership. A much more ambitious project was the creation of the Exports Control Committee, with power to determine the ports to which traffic should be hauled, thus overcoming the utter lack of coördination between rail and water agencies that prevailed at the beginning. The permit system was employed to prevent the shipment of goods to any port until there was a practical certainty that ships would be promptly available.

The war did not last long enough to give this committee the opportunity to make its influence felt in any large way on the traffic of the country. But some means must soon be found to put this policy into practical operation if we are to utilize to the best advantage our railroad, port, and steamship facilities, and avoid the frequent congestions and blockades that arise from a too great popularity of a relatively few of our ocean terminals. Shipping must be attracted to the less frequented ports, and traffic must be so distributed that a steady flow to and from the ports can be assured the railroads serving them. This will raise the question whether it is to the public interest to permit the continuance of the railroad control of terminal facilities, under which close traffic agreements are made with steamship lines, frequently to the detriment of the proper development of the port.

We shall have no thoroging solution of the ocean terminal problem until the public recognizes its right and its duty to own and control the facilities in the interest of the public as a whole.

In the reduction of costs of operation and the improvement of service, the greatest opportunities for the future center in the problem of terminals. The public has permitted these properties to develop without, until recently, taking any serious interest in their character and location, and large cities have been provided with separate and scattered terminal yards constructed on the theory that each railroad is an isolated undertaking having no relation to any other. The result is that consolidation of terminal properties becomes today a well-nigh insoluble problem because of its physical difficulties and its financial magnitude. The claim that any movement toward joint terminals would be illegal under the Antitrust Act has no basis in court decision, beyond the ruling that such terminals must not be organized with the purpose of preventing competition.¹ Whether the very moderate movement in the direction of unification inaugurated by the Railroad Administration will be carried over and further developed, depends to a considerable degree upon the plan finally adopted for the future operation of the railroads. The public should certainly not allow this promising beginning to lapse.

By the reduction of the operating organizations, and the elimination of two or three hundred officers at salaries of \$5000 or over, Director General McAdoo estimated that he had accomplished an annual saving of about \$4,600,000. But this "saving," widely heralded in the newspapers because it meant the elimination of the exorbitant salaries paid to railroad executives, was largely a matter of bookkeeping. The greater part

¹ United States v. Terminal R. R. Association of St. Louis. 224 U. S. 383.

of the officers released by the Administration continued as officers of the railroad corporations, and the sum total of administrative expense remained as before. Moreover, the Director General recognized the necessity of paying salaries of \$40,000 and \$50,000 to his Regional Directors. Other members of his staff whom he secured at lower salaries, assumed their duties as a war service and at a considerable personal sacrifice. When in addition to this, it is observed that the expenses of the federal administration are steadily growing, it must be concluded that this is one of the instances in which the desire of the Administration to do the popular thing, led it into promises that it was unable to fulfill.

In contrast with the British plan, leaving the operation of the roads to their General Managers under a government guarantee, the Director General inaugurated a régime of federal operation, with a staff which, altho made up largely of experienced railroad men, was required to sever all its former connections and recognize responsibility to him alone. Basing his action upon the Biblical generalization that "no man can serve two masters," he made a definite cleavage between the operating staff and employees, which now were placed on the pay-roll of the Federal Railroad Administration, and the officers of the railroad corporations, who represented the owners, stockholders, and creditors as lessors of the railroad property. Many of the former executives have been retained as operating heads of systems or groups of roads, many others have become presidents of their corporations, with the duty of protecting the interests of their stockholders. The explanation of the practice of the Director General, in notable instances, in passing over the presidents of the large railroads, and selecting subordinate officers as his federal managers, seems to have been a feeling that more whole-hearted

subservience to federal authority would be assured in the case of younger men, whose duties had not brought them so closely in touch with broader corporate interests and questions.

The three "economies" in which the largest estimated saving was shown have now been discussed. Other administration policies may be summarized briefly. Rerouting of traffic to avoid unnecessary mileage was attempted in all sections, and it was assisted materially by shippers themselves who, after the disappearance of the traffic forces and the ending of solicitation, naturally sought the shortest routes for their goods. But direct routes, especially in the east, became so congested that roundabout hauls were required, and the saving was thereby largely nullified. No satisfactory estimate of savings can be made, but it is doubtful whether any large economies resulted under the emergency conditions of the war period. The "sailing-day-plan," under which less-than-carload freight is assembled in solid cars and despatched without transfer to destination, has been widely introduced, but not without protests from shippers in some sections, who have felt that their privileges were being curtailed. They have protested against being obliged to bring their traffic to the freight station on designated days only, and to ship it only by designated routes. But many of the objections to the plan as originally promulgated have now been removed, and with its more general introduction its advantages from the standpoint of service are likely to be better understood and appreciated. The movement for better loading of cars and trains, begun and largely accomplished under the Railroads' War Board, has to some degree improved during the period, with the invaluable assistance of the various government agencies concerned. Moreover, the shippers contributed to this

not alone from patriotic motives, but because they felt the necessity of making full use of their limited supply of cars. Solid trains were routed direct from origin to destination, expediting traffic and saving yard expense. The service was applied most extensively to traffic in flour and grain, lumber, fruit, packing-house products, live-stock, cotton, and oil. However, the statistics of loading, particularly for the Eastern Region, are materially affected by the extent of empty car mileage westbound, which the war exigencies forced upon the management. So far as was possible, the "permit system" was used as a weapon to enforce full return loads. The coal-zoning plan, introduced primarily to meet the fuel shortage, was effective in eliminating a large waste in transportation, altho it necessitated a serious readjustment in markets that were accustomed to certain grades of coal, and were by this plan now obliged to resort to substitutes. An increase in demurrage rates almost to a prohibitive point, was put into force to speed up the unloading of cars. Through inter-line way billing was extended and reconsignment privileges to a considerable degree eliminated. A system of store door delivery of package freight was introduced in New York and Philadelphia to relieve the terminal situation. The Car Service Section undertook with some success the campaign for advance movement of important raw materials during the summer months, to avoid a possible congestion in the fall. Finally, there may be mentioned the devising of methods for the consolidation and simplification of tariffs and the completion of a uniform freight classification, in preparation long before the war, which has been submitted to the Interstate Commerce Commission, but not yet approved.

In the passenger field, the project which is looked upon with the greatest satisfaction by the Administra-

tion is that of the consolidated ticket office. The number of these was 101 at the beginning of the year, replacing 564 offices previously in existence. It is insisted that the convenience to travellers in the combination of Pullman and ticket offices, and in the opportunity to decide between alternative routes with a minimum of inconvenience, provides a service that the public will demand as a permanent feature. But whether it will persist or not depends altogether upon the extent to which the principle of coöperation among railroads is continued. That consolidated ticket offices can be maintained as at present under a régime of competitive service, such as existed previous to the war, seems very improbable. Whether or not the practice is legal under the Antitrust Act is a matter of dispute among railroad men. In the Union Pacific — Southern Pacific merger case, the prosecuting officers attached much importance to the consolidation of ticket offices as infractions of the law, and after dissolution all consolidated offices were abandoned. Other unification policies in passenger service include the introduction of a universal mileage book, standard ticket forms and baggage rules, and the general practice of abridgment of time-tables and curtailment of advertising. Attempts to standardize dining-car service struck at the very source of individualism, the human stomach, and the results have not been altogether successful. To promote uniformity in operation, there was created in May an Operating Statistics Section with W. J. Cunningham in charge, which was to do for operation what the Interstate Commerce Commission has done for accounting. It was to decide upon operating statistical standards and make them effective, and to analyze and disseminate operating results. Its plan for the standardization of statistical practice was made effective on August 1, 1918, and

its work has developed with such efficiency that its standards and reports are likely to have a permanent place in railroad administration.

In the field of maintenance, many practices have been standardized, and the principles of unification introduced. Locomotive repair shops have been pooled regardless of ownership, thus reducing distance to which locomotives are sent for repairs and the time they are out of service; standard practice has been introduced in many phases of maintenance and inspection, and the policy of inspection has been extended to take the place of commercial insurance, now abolished. Joint purchase of supplies has been undertaken wherever possible. The most sweeping innovation and the one which has met with the strongest opposition, is the introduction of standardization into the manufacture of locomotives and cars. The Director General, in his seven months' report of September, 1918, stated that there were said to be prior to the war 2023 different styles of freight cars, and almost as many of locomotives. At the time of his report, twelve standard types of freight cars had been decided upon, and six types of locomotives in two weights. With interchangeable parts, it was expected that these relatively few types could be more rapidly repaired, particularly when off their own lines, and that the stock of repair parts could be reduced. Moreover, it had already been demonstrated that the speed in production of new equipment was materially increased. Aside from the natural opposition of the locomotive and car builders to this policy, there are many expert railroad maintenance engineers who feel that the policy of standardization has been carried too far, and that many roads are consequently unable to secure the equipment adapted to their peculiar needs. Efficiency in operation has been

sacrificed to efficiency in production. Probably the reasonable policy lies somewhere between the two extremes. While experimentation should be sufficiently encouraged to assure a steady development in efficiency of equipment types, and the railroads should be free to order those types that are best suited to their needs, the public should not be asked to bear the burden of all the variations from standard that the ingenuity of builders can devise, and induce the railroads to purchase. So far as maintenance work is concerned, the record of the administration is not satisfactory, but it has had to contend with inefficient and inadequate labor and a shortage of materials. The amount of deferred maintenance that has piled up on the railroads during the past eighteen months is a matter of grave concern to the owners of the properties.

Two other steps involving far-reaching consequences in the direction of unification have been taken, those relating to the express companies and to the waterways. With the express companies, each railroad had a separate contract, and these contracts varied widely in their stipulations concerning the handling of different kinds of traffic. There was necessity for a uniform contract applicable over the entire railroad net. Accordingly, a corporation known as the American Railway Express Company was created to take over the existing companies during the period of federal control. With this new corporation the Railroad Administration made a contract, under which the express company was to pay to it $50\frac{1}{4}$ per cent of its gross revenue from transportation of express matter, which was the average payment under the contracts of the previous three years. The balance after deducting operating expenses was subject to a division between the company and the administration. In November, the control and opera-

tion of the company was taken over by the Railroad Administration under presidential proclamation. Express matter is now sent by the most direct route available, and express cars are utilized independently of ownership.

By the Federal Control Act, the President was authorized to expend from the revolving fund what he deemed necessary or desirable for the utilization and operation of canals, and the purchase, or construction and operation of equipment on inland and coastwise waterways. A Marine Department was created under the Railroad Administration. Because of the requisitioning by the government of a large amount of coastwise tonnage for war purposes, the remaining private lines were disposed to accept only the most profitable tonnage, and an additional burden was in consequence thrown on the railroads. Accordingly, the Railroad Administration not only took over all railroad owned steamships, but also under the President's war powers, fifty-one ships belonging to four private companies. These private vessels were returned to their owners after the armistice. In April, 1918, the New York Barge Canal Section was created, and the leasing and construction of equipment was undertaken. But the terminals were not yet constructed and equipment was inadequate throughout the season, so that nothing was accomplished. In July, the Cape Cod Canal was taken over to provide an inside waterway free from submarine danger. Dredging and other maintenance work was at once undertaken, and traffic began moving in volume in the fall. In the same month, the Mississippi and Warrior Waterways Section was created. The fleet of the Kansas City-Missouri River Navigation Company was purchased, and barges were leased from the Corps of United States Engineers. Construction of towboats

and barges was authorized. Traffic on the Mississippi has thus far been confined to that which originates along its banks, but joint rail and water tariffs are to be issued that will show a differential of 20 per cent in favor of the water route between St. Louis and New Orleans. For the coal business between the Warrior River, Alabama, and New Orleans, equipment has been purchased and additional construction authorized. The Delaware and Raritan Canal is being operated by the administration, which is also guaranteeing the Chesapeake and Ohio Canal against loss. Thus far coöperation between rail and water transportation under federal management has been a hope rather than an accomplishment, and this is not the place to discuss the general problem of coöperation. Suffice it to say that so far as such a policy of the Railroad Administration contemplates the utilization of natural waterways, in which the burden of construction and maintenance cost is relatively small, it is to be hoped that the program will be pushed with vigor, and that a real foundation will be laid for a policy of efficient coöperation under private operation. Incentive has heretofore been wholly lacking. It will be lacking again if railroads return to their earlier competitive status. But if coöperation is to prevail at all in the future, the more efficient waterways should be a part of the program.

It will be seen from this summary that the policies of the Railroad Administration may broadly be divided into those that aimed to contribute directly to the war demand, by freeing equipment and right of way for the movement of troops and essential commodities, and those which aimed to meet the steadily rising costs of operation by economies of various sorts. Many of these latter attempts failed, during the war period, to produce the expected results, but the purpose has been clear —

to operate with the greatest possible economy consistent with war's demands. Of course this policy has not been carried out without dissatisfaction to passengers and shippers, and now that the seal of silence imposed by patriotism is broken, we are learning very definitely the public's opinion of government operation. Many of the changes introduced have long been needed, but were impossible of accomplishment under competitive conditions. Should coöperation on a large scale follow this period of federal operation, the lessons learned in the experiment with policies of unification should not be lost.

LABOR CONDITIONS

No more serious situation confronted the railroads in December 1917 than that arising from their relations with their employees. A drain of the working forces had begun at the opening of the war, with the allurements of higher wages in other industries, and many of the carriers had been turning their mechanical forces over two or three times in the year. The draft and the call for railroad men to serve in the war zone had further depleted them. The steadily rising costs of living, with too great deliberation on the part of many roads in facing the situation, created a spirit of unrest, broke down the old forms of negotiation, and necessitated adjustments overnight to avoid a stalling of the transportation machine.

One of the first general orders of the Director General created a Railroad Wage Commission, under instructions to make a broad general investigation that should include the relation of railroad wages to those in other industries and the relation of different classes of labor to each other, the wage conditions in different parts of the country, the immediate emergency of the war and the high cost of living. The recommendations of this Com-

mission for immediate relief were based upon an investigation of the increase in living costs since December, 1915, and recommended increases for all employees receiving less than \$250 per month, graded from an increase of 43 per cent for all receiving \$50 per month and not less than \$46 (under \$46 a flat increase of \$20), down to an increase of \$1.00 for those receiving above \$248 and not more than \$249 per month. These increases were applied to the rates in effect December 31, 1915, and were to be diminished by the amount of any increase received since that time. Reductions in hours were not to be regarded as increases in pay. Existing hours of service and existing rules and conditions of payment were not to be disturbed during the war period. It was pointed out that 80 per cent of the employees were receiving \$100 per month or less, and that the number receiving from \$150 to \$250 per month included less than 3 per cent (excluding officers).

In General Order No. 27 which embodied these recommendations, some additional increases by way of the establishment of minima were granted to the shop crafts and to common labor, but the most significant departure from the conclusions of the Commission was the recognition of the principle of the "basic" eight-hour day in all railroad employment. Overtime was to be paid pro rata unless existing agreements provided otherwise. Where women were employed, suitable working conditions were to be provided and their pay was to be the same as that of men for the same class of work. An advisory Board of Railroad Wages and Working Conditions was set up to hear and investigate matters relating to inequalities in pay and regulations, which was to report to the Director General.

This general increase proved unsatisfactory to many classes, particularly those that had already received in-

creases since December, 1915, and furnished only the beginning of a succession of increases for various classes, including shop employees, clerks, telegraphers, employees in express and Pullman service and finally the four brotherhoods, who received an annual increase of over \$60,000,000 in April, 1919. The Board of Wages and Working Conditions has made the announcement — comforting to the railroad managements — that these increases, while generally less than those granted for similar work outside, have been established with the object in mind of creating a wage structure that would survive the war period. The cycle, now officially declared to be complete, is estimated to mean an addition to operating expenses during 1919 of \$900,000,000, which is nearly 20 per cent of the total operating revenues for 1918.

But the size of the wage bill is not the most significant change in the situation. Rather does it lie in the development of the policy of standardization. In addition to the Board of Railroad Wages and Working Conditions set up to investigate the larger questions of policy and compensation, there were created bipartisan boards of adjustment with equal representation of employers and employees, to which, under a signed agreement with the unions, controversies were to be referred growing out of the interpretation of wage schedules, that could not be adjusted between the employees and officials of the individual railroads. For the adjustment of controversies among the unorganized employees, an official was appointed under the Division of Labor of the Railroad Administration. As a consequence of this centralization of wage adjustment, there has been developing a uniformity in practice not before prevailing on the railroads of the country. The announcement of the Director General in February, 1918 that no discrimina-

tion would be made in employment because of membership or non-membership in labor organizations, resulted, so he stated, in a declaration from the organized employees that they did not contend for the closed shop as against non-union members, and in the organization of employees into unions on roads that had previously forbidden organization.

As already stated, the Director General formally established the basic eight-hour day.¹ Supplementary orders have done much to make this a real eight-hour day by increasing the number of men to whom time and a half for overtime applies after eight hours, and in the case of other classes, extending the practice of paying time and a half for overtime to all hours after the ninth and tenth. Similarly standard working rules have been established for more than a million employees that had not theretofore worked under fixed regulations. If the roads continue for any considerable time under federal control, it is a safe prophecy that standardized rates, time and regulations will be established permanently throughout the country. That the present organization is working to the general advantage of labor, in spite of the many grumblings, is evident from the action of the four brotherhoods, the barometer of railroad employee sentiment, in proposing a plan for permanent nationalization. This sudden overturn in their established policy is not an altruistic move, but is rather a shrewd estimate as to what federal management means to them.

On the question of the loyalty and efficiency with which labor has worked during the period of federal operation, an answer is well-nigh impossible, because of the amount of dilution incident to the war. That the

¹ Shop crafts waived their rights to limited hours during the war. Many shops worked seventy hours per week and the remainder sixty hours, as a result of the bad condition of locomotives and the shortage of labor. Labor received time and a half for overtime. After the armistice, the eight-hour day was restored.

patriotic stimulus kept the forces, such as they were, up to their maximum effort for the better part of last year is probable. Under the uncertain conditions of the present, when officials and employees are in doubt whether their future employer is to be the United States government or their former executive returned from his period of banishment, there is likely to be a stage of lowered morale and lessened efficiency.

RATE INCREASES

Finding itself facing the possibility of a huge deficit, primarily as a consequence of wage increases and the increase in cost of materials and supplies, the Administration took advantage of the powers granted in the Federal Control Act, and announced on May 25, 1918, a 25 per cent advance in freight rates effective June 25, and an advance in passenger fares to a minimum of three cents per mile, effective June 10, with a half cent additional per mile for the privilege of purchasing Pullman service.¹ Additional regulations concerning Pullman travel still further increased the cost for those seeking the more luxurious accommodations. The new rates were made specifically to apply to both state and interstate traffic. In many cases, due to changes in minima and in the methods of application, the increases in freight rates were much in excess of 25 per cent.

The method by which the increase was accomplished must have won the envy of all railroad officials, who had struggled through protracted hearings with Federal and State Commissioners, and had been obliged in the end to accept increases, if any at all, far below what they deemed necessary to meet their needs. The Director General explained that action was necessarily delayed

¹ This extra charge has been cancelled since the armistice.

until the Federal Control Act could be passed; that the correction and adjustment of individual items in a structure so vast would have been impossible in any brief space of time, and that after conference with the Commission, and after investigation of existing conditions and a careful estimate of probable results, it was decided to take quick action that would spread the increase as equitably as possible over the entire country. While the Administration doubtless gave the matter mature consideration, the public was not taken into its confidence and had to content itself with newspaper rumors. There is little question that the summary manner in which the increases were put through was deliberate, and designed to forestall any interference that might spring from public discussion. In fact, such a procedure was specifically provided for in the Federal Control Act itself, which reduced the power of the Commission from that of suspension of rates to that of hearing complaints concerning rates actually in effect.

These increases were intended so to enhance net operating revenue that the "standard return" payable to the carriers under their contracts could be secured without drawing upon other government funds. But obviously such a purpose could be based on estimates only, as it was impossible to foretell what the effect upon traffic would be from the increases in rates. So far as passenger traffic was concerned, the deliberate intention of the high charges was to reduce travel, and to free roads and equipment for more important functions — a purpose that largely failed of effect.

As for freight traffic, there was some prospect that the higher rates would be more or less directly reflected in higher net earnings, for transportation demand, in view of war emergency conditions, was largely inelastic, essential commodities having to move regardless of cost.

But the results of the year in no sense fulfilled these optimistic predictions. For the twelve months, the net railroad revenue fell short of the amount required to meet the "standard return" by over \$202,000,000. The only district that earned its standard return was the Southern District, comprising the states east of the Mississippi and south of the Ohio and Potomac. The result in the South is attributed to the recent improvement in the physical condition of the southern roads and the large number of camps in that section, but principally to the fact that the years upon which the contract was based were years of light earnings. Their bargain with the government was consequently an unfortunate one.

The reasons assigned by the Director General for the outcome, in which the operating ratio had risen to 81.3 per cent, are all connected directly or indirectly with war conditions — the necessity of moving war freight expeditiously regardless of expense, the loss of men to the draft and to railroad service abroad and the substitution of inexperienced labor, and the rapid increase in cost of labor and materials. Moreover, while wage increases were largely effective from January 1, the railroads received the benefit of rate increases for only the last six months of the year. This deficit, says the Director General, should be frankly charged as war cost and should be considered an exceedingly small expenditure for the result accomplished.

As late as January, 1919, Director General McAdoo expressed the conviction that with the return to more nearly normal conditions the deficit would not only be wiped out, but reductions in rates might gradually be made; and that earnings would show an improvement for each month over the previous year. Yet the reports for the first three months of 1919 do not bear out this

prophecy. The net deficit below the standard return for the first quarter of 1919 amounted to \$176,000,000, which is nearly \$30,000,000 greater than for the corresponding period of 1918. While operating expenses were considerably greater than a year ago, the operating ratio being $91\frac{3}{4}$ per cent, the significant factor, particularly in March, was the decline in traffic, which was reflected in a figure of gross revenue only slightly larger than for 1918 in spite of the increase in rates. Whether any further relief is to be found in the development of operating economies remains to be seen. But it seems probable that a genuine revival of peace time industry will be necessary to turn the scale. The Administration is face to face with that fundamental law, so dominant in the railroad industry, that a loss in business cannot be offset by a corresponding reduction in costs. If on the other hand, a substantial increase in business takes place during the year, it should be reflected in a considerable increase of net revenue.

CAPITAL EXPENDITURES AND THE REVOLVING FUND

By the Railroad Control Act, a sum of \$500,000,000 was appropriated, which together with any funds available from the carriers in excess of the standard return, was to be used as a revolving fund to pay the expenses of federal control, to cover deficits in the standard return, if any, and to provide terminals, motive power and cars. From this fund the President was authorized to make advances to carriers for any part of such additions, betterments and extensions as he had ordered, such advances to be charged against the carrier, and to bear interest. He might also use this fund to promote the operation of canals and inland waterways by the

purchase of equipment or otherwise. From this fund the President was also authorized to purchase for the United States at not exceeding par any securities issued by the carriers, that had been first approved as consistent with the public interest.

During the year 1918 there was authorized for improvement by the Director General through the Division of Capital Expenditures, the amount of \$1,-279,000,000, of which \$573,000,000 was for additions and betterments, \$659,000,000 for equipment and \$47,-000,000 for extensions, branches and other lines. Aside from those appropriations made directly for war purposes, approval was confined to such expenditures as were necessary for safety in operation, or to provide a needed increased capacity, and any expenditure not required for these purposes was in most cases deferred.

The policy was laid down by the Administration of authorizing improvements to effect permanent economies, only when the economy was so great that the cost could probably be saved during the period of federal control. Hence the large items of expenditures were additional main tracks, yard tracks, and sidings, shop buildings, engine houses and appurtenances, and locomotives and cars. Director General Hines, Mr. McAdoo's successor, in submitting to the Secretary of the Treasury in January, 1919, a supplementary estimate for an addition to the revolving fund of \$750,000,000, showed that the Railroad Administration had expended for additions and betterments actually made during the year 1918, in excess of the amounts which the companies could repay from their rentals, the sum of \$291,000,000. In addition to this, \$51,475,000 had been loaned to the New York, New Haven & Hartford, \$4,360,000 had been expended for inland waterways, and the Administration was facing an operating deficit estimated at that time at

\$196,000,000, since found to be \$202,000,000. There were on hand cash and net current assets tied up as working cash capital, \$339,000,000. The Director General stated that during 1919, financial provision must be found to finance inland waterway expenditures of \$12,-840,000; to aid in financing the reorganization of the Boston and Maine, \$20,000,000; to finance equipment to be delivered during the year, \$286,000,000; and to finance other necessary capital expenditures, \$491,000,-000. He estimated that \$150,000,000 could be derived from company rentals to be devoted to capital expenditures. It should be recalled that all this projected expenditure will be reimbursed to the government with interest with the exception of the operating deficit, which is a direct war cost. The failure of Congress to pass the requested appropriation created a critical situation, which was met by temporary financial expedients, in which the banking community came to the rescue.¹

RELATION OF THE RAILROAD ADMINISTRATION TO EXISTING REGULATING AGENCIES

In his proclamation taking possession of the roads, the President directed that the systems of transportation taken over should remain subject for the time being to all statutes and orders of the Interstate Commerce Commission and the state commissions, but that any orders thereafter made by the Director General should have paramount authority.

Such sweeping authority as was assumed by the President under his war powers and as was further specifically delegated to him by the Federal Control Act in March, 1918, could not but run foul of existing regu-

¹ With the reassembling of Congress in May, Director General Hines increased the amount of his request from \$750,000,000 to \$1,200,000,000.

lating bodies. The very first order of the Director General, dated December 29, 1917, authorized the carriers to disregard established routes whenever necessary in the interest of economy and efficiency, and thereby superseded Section 15 of the Interstate Commerce Act, which protects carriers against being short-hauled, and which grants to shippers the right to route their freight. By throwing all railroads into one operating system and authorizing the utilization of all terminals, equipment, and facilities regardless of ownership, this same General Order removed the protection granted by Section 3, which gives to carriers exclusive right to use their own tracks and terminals. But in the matter of rates, the limitations upon the Commission's authority were particularly severe. The Federal Control Act (Section 10) provides that whenever the public interest requires, the President may initiate rates, fares, charges, classifications, regulations and practices by filing them with the Commission, and that these rates and regulations cannot be suspended by the Commission pending their final determination. They are to take effect upon such notice as the President shall direct. When they are once in effect, the Commission may upon complaint, enter upon hearings and render decisions as to their reasonableness and justice. But the Commission is instructed by law to give due consideration to the fact that the transportation systems are not in competition, but are being operated as a unit. Moreover, whenever the President finds and certifies that in order to defray the expenses of federal operation and cover the compensation to the carriers, it is necessary to increase revenues, the Commission is required in passing upon such increased rates, to take into account the finding and certificate of the President, together with such recommendations as he may make.

This rate-making power of the President supersedes Section 6 of the act, which requires thirty days' notice of a change in rates; it takes away the power under Section 15 to suspend rates, and makes it unnecessary for the carriers to secure advance authority from the Commission to increase rates. While the Commission, within the restrictions stated, is unhampered in rendering decisions upon specific complaints after hearing, and has decided cases continuously during the past year with the Director General as defendant, many of which went against the Railroad Administration, yet its power has unquestionably been reduced in actions involving an entire schedule of rates, when the fundamental question at issue is one of adequate revenue. The findings and certificate of the Director General have, by the specific requirements of law, a weight that leaves the Commission little choice except to approve the schedule in effect. Such issues as have given opportunity to the Commission to assert its remnant of independence may be illustrated by the case of *Willamette Valley Lumbermen's Association v. Southern Pacific Company* (51 I. C. C. 250) in which the rates were complained of as unreasonable and unduly preferential of other shippers and localities. It was the argument of the Director General that the words "reasonable and just" in the Control Act have a meaning different from that applied to them in the Act to Regulate Commerce, and that the rates initiated by the Director General are in themselves and in relation to each other presumed to be right, and cannot be changed without an affirmative showing that they are wrong. The first contention the commission denied. To the second, they replied that there was no authority in the Control Act for perpetuating during federal control a rate adjustment that was unlawful under the Act to

Regulate Commerce; that the increases initiated by the Director General were merely superimposed on the existing basis of rate adjustment, which all the evidence shows was unreasonable and unjust. "It is inconceivable," said the Commission, "that the Congress did a vain thing in conferring upon the Commission power to determine whether or not the rates initiated by the Director General are just and reasonable." An appropriate order was entered against the defendants, including the Director General.

So far as rates not under federal control are concerned, they are subject in all their interstate relations to the Act to Regulate Commerce, and the commission still has its former jurisdiction over joint traffic between federal and non-federal roads. But this jurisdiction covers a relatively insignificant portion of the traffic of the country.

In the field of authority occupied by the state commission, the Federal Railroad Administration has shown even less regard for the sensibilities of regulating authority. General Order No. 28, increasing freight and passenger rates, was made specifically applicable to intrastate as well as interstate traffic. In matters of service, the Railroad Administration proceeded with almost no recognition of even the existence of state commissions. Relations became strained as a result of the creation by the Federal Administration of regional and district traffic committees. These committees, composed of representatives of the Administration and of the business interests, were set up after the schedule of increased rates had gone into effect, and were designed to promote efficiency and expedition in the handling of adjustments in rates and regulations. It became the practice of many railroad officials to disregard the jurisdiction of the state railroad commissions

and take up rate matters directly with these traffic committees. These committees have held no formal hearings, but have reported their findings through the regional committees to the Director of Traffic at Washington, who alone has power to render final decision. The shippers have frequently insisted that this has deprived them of their day in court, and that the rulings have not adequately taken into account local conditions and interests. On the other hand, Mr. Prouty, as Director of the Division of Public Service and Accounting, has declared that in all his experience with rate-making, extending over nearly a quarter of a century, there has never been a time when rate changes have been made so intelligently and so speedily as now, and that the practice of having shippers participate in preliminary discussions will in some form be perpetuated. Local feeling became articulate in resolutions adopted at the meeting of the National Association of Railway and Utilities Commissioners in October, 1918, in which the members demanded full authority on the part of the states and declared that in any event it was the duty of each state commission to exercise and maintain its authority to the extent which it might deem the public interest demanded. It declared further that "the Association is emphatically of the opinion that any plan for the future operation of the railroads should fully safeguard the powers of local tribunals, responsible to the people of the several states, with respect to rates, service and facilities intrastate in character."

During the war, the Federal Railroad Administration never squarely met the issue and never officially interpreted its powers. In practice, it initiated state rates and filed them with the state commissions "for information only." In matters of service, it asserted its complete authority. In January, 1919, the war having

ended, and plans being under way for returning to a peace basis, Director General Hines appointed as Director of the newly created Division of Public Service, Max Thelen, formerly Chairman of the California Railroad Commission, one of whose duties was to establish a helpful understanding with the state commissions. In February, after conference with representatives of the state commissions, the Railroad Administration announced its policy. Transportation systems under federal control were to continue subject to the lawful police regulations of the several states in matters relating to spur tracks, railroad crossings, safety appliances, train service, and the like, and it was to be the policy of the Director General to cause the orders of the state commissions to be carried out. Attention was called, however, to the financial condition of the roads, and it was assumed that expenditures would be ordered by the state commissions only after full consideration of the needs and difficulties of the United States in operating the railroads.

As for rate matters, the Directors of Traffic and Public Service were ordered, before authorizing important advances in rates, state or interstate, to submit them for advice and suggestion to the commissions in the states affected. Carriers were ordered, for the purpose of maintaining the continuity of state records, to file with state commissions, for information only, all rate schedules and annual and other reports required by state statutes. As to the division of authority over rates, the conference disagreed, and the Director General announced his purpose to expedite a decision at law by the appropriate tribunal. A case is now pending in the United States Supreme Court, on appeal from a decision of the Supreme Court of North Dakota, in which the latter court directed the issuance of a peremptory writ

of mandamus, ordering the railroads to desist from collecting on intrastate business any other charges than those on file with the State Board of Railroad Commissioners.¹

THE FUTURE

To treat adequately all considerations underlying the future railroad policy of the country would transgress the limits of this paper. Nor would it be profitable, with new "solutions" of the problem appearing almost daily, to attempt an exhaustive analysis of the various reconstruction projects. It will be sufficient for the purposes of this article to sketch in outline those proposals that are the most significant either by reason of their inherent character, or of the position occupied by their endorsers, and to lay down some fundamental principles which, in the opinion of the author, should be embodied in any plan for permanent railroad control.

Of the various possibilities for the future, the first that comes to mind is permanent government ownership and operation. No plan embodying such a proposal has yet been promulgated. The nearest approach to it is the project of the railroad employees, which is government ownership with private operation. This scheme, presented to the Senate Committee on Interstate Commerce by Mr. Garrettson, and his attorney, in behalf of the four railroad brotherhoods and ten other railroad organizations affiliated with the American Federation of Labor, provides for the acquisition of the roads by the federal government upon the basis of a fair valuation, and the creation of a federal operating corporation, the stock of which is to be held in trust for the employees, official, and non-official. This corporation is required

¹ On June 2, the Supreme Court by unanimous decision overruled the decree of the North Dakota court, and sustained the war powers of the President.

to meet all costs of operation, and the net revenue is to be divided equally between the government and the corporation. The government's share is to be used for the retirement of capital, except that when this share reaches a fixed percentage of the gross revenues, the rates are to be reduced. The corporation's share is to be distributed as a dividend to the employees. The Interstate Commerce Commission is to retain its existing powers, and wage boards for the settlement of disputes are to be created, consisting equally of operating officials and employees. This plan has aroused relatively little public discussion, doubtless because it is difficult to consider seriously a scheme so obviously devised in the interest of a class. Until recently the brotherhoods have been officially opposed to government ownership; in fact, the chiefs of three of the brotherhoods are still opposed to it on general principles. But beginning with the passage of the Adamson Act in 1916, they have found Washington an increasing source of comfort and consolation, and the increases in wages during federal operation have come with such relative ease, as finally to convince them apparently of the wisdom of a perpetual alliance with the Federal Administration. However, it is by no means clear that this project has the support of the railroad employees as a whole, or even of the membership of the organizations signatories to it. In fact, there is evidence in the testimony of Mr. Garrettsen that the leaders and their attorney are relying upon a support from the rank and file that has not yet been officially granted. Previous to its introduction, the plan seems not to have been indorsed either by convention or referendum. That railroad employees are not a unit in support of the project is shown by the appearance at the hearings of the president of the Order of Railroad Station Agents to

oppose the Garrettson plan. Certainly until the organizations have come out into the open, and given endorsement to the plan of their astute leaders, there is little ground for the claim made by the more radical labor groups that this project is an evidence of the growing demand of labor for representation in the control of industry.

Besides this halfway proposal for government ownership, there is little organized sentiment in its favor in this country at the present time beyond that expressed by the socialists. No railroad administrator, federal or state has advocated it; in fact, most of them have specifically opposed it. Shipping and commercial organizations in various sections have passed definite resolutions in opposition. The attitude of railroad men and the banking community is self-evident. The universality of this sentiment is striking, and is in contrast with an expression of considerable volume in favor of nationalization a few years ago. This overturn is obviously the result of the period of federal operation.

It was said at the beginning of this paper that the year of federal operation could not be accepted as an argument for or against government ownership, but what was then in mind was a final judgment based upon a careful weighing of all the considerations. The attitude of the American public at present does not rest upon any such painstaking examination of the evidence; it makes no allowances. The numerous hostile resolutions are the composite of many minds and many motives, in some cases expressing opinions designed to accomplish a definite purpose, in others merely registering a thoughtless impatience with an unsatisfactory situation. There is the natural reaction that follows a period of patriotic service and of altruistic endeavor, and an irritation at the deliberation with which adjust-

ments are being made. This attitude of mind is transformed into outright opposition by the inconveniences and annoyances and the deprivation of privileges to which travelers and shippers are still subjected. Shippers have been deprived of many services that they had come to expect as a matter of course under competitive conditions, like the tracing of their freight, assistance in obtaining rate quotations, and privileges in transportation, such as reconsignment. Many of these services might eventually be developed under federal operation; many of them could with difficulty be defended from the public standpoint. Then again, the lack of smoothness of federal operation, much of it inevitable, and the deplorable financial results, have been cleverly played upon by those who fear the extension of government authority, to discredit nationalization. The result is that this plan is definitely postponed and that the country is farther away from it than ever.

But putting to one side the project of government ownership, there still remains the question as to the length of time that war control shall continue. The Federal Control Act provided that government operation, should not last longer than twenty-one months from the date of the President's proclamation announcing the exchange of ratifications of the treaty of peace. However, the President might relinquish the railroads at any time that he might deem such action needful or desirable. Director General McAdoo with the approval of the President, presented a proposal for a five-year extension of the present control, a proposal that was later supported with great ability before the Senate Committee by Director General Hines. His general argument was briefly this. The period of the war has been wholly abnormal and the twenty-one months' period is too short in which to reach any sound judgment

as to the merits of unified federal operation. The impending transfer to private control will produce a state of unrest and uncertainty among the working force that will react unfavorably upon operation. The agitation in Congress for a permanent solution, the restlessness of the public in general and the imminence of the presidential election, will all be factors unfavorable to a satisfactory solution within the statutory period. An adequate program of additions and betterments cannot be planned and perfected during this interval, neither can the plans for the creation of economies through unification be fully worked out.

Outside the Federal Administration, this project appears to have met with no favor whatever. An unwillingness to submit in normal times to the character of control that the war necessitated, and which was in many respects arbitrary and autocratic, combined with an impatience to get back to a peace basis, is in part responsible for its cool reception. Then there is the fear partly genuine, that such an extended control would so crystallize the system that its permanence would be inevitable. The railroads have insisted that their financial relations and obligations would become such a serious burden, that they could not again be carried by corporations operating independently, and their goodwill as operating organizations would be destroyed. But however interested some of the arguments in opposition to the five-year extension may appear to be, the burden of proof for the extension of the extraordinary war powers of the President conferred by the Federal Control Act rests wholly upon its advocates, and their arguments have lacked the necessary convincing force.

At the other extreme from this suggestion is that of the immediate return of the roads to their owners. This

alternative was held out by the President in his annual message in December, 1918, as a warning against a failure to find a legislative solution. To this suggestion, the railroads are equally opposed. They insist that if their properties are returned without any plan, or any provision for proper adjustment of relations between them and the government, they will be faced with bankruptcy. They declare that their credit has vanished, and that it is not clear whether they can even collect under private operation the rates now in effect by order of the Director General. Their operating forces have been shaken, if not demoralized, and much time will be needed under their former chiefs for a restoration of their morale. Before transfer takes place, protection must be assured to the roads if the public service is to be maintained. Director General Hines, in reply, has assured the Senate Committee that the Administration, if it should decide to relinquish the roads, would pursue a policy of gradual transition, and would have naturally no other object than to protect railroad property in the interest of the public. Moreover, it is the view of the Interstate Commerce Commission that interstate rates now in force would remain in force until set aside in the usual way. So far as intrastate rates are concerned, while the outcome is not as clear, it seems probable that with a few exceptions, the state commissions would protect existing rates if public interest made it necessary. It seems probable, however, that no hasty return of the roads is to be made, and that Congress will take up for immediate consideration this greatest of our domestic reconstruction problems. It will be of interest therefore, briefly to outline the more important proposals for a restoration of the roads to private hands.

Director General Hines has advocated as a permanent solution of the railroad problem, the creation of a com-

paratively few railroad companies, six to twelve, with capitalization equal only to the real value of the property. This capitalization should have a moderate return guaranteed by the government, which should be sufficient to preserve railroad credit and attract new capital. In excess of this moderate return, earnings should be shared by the government and the railroads, and possibly by labor. The government's interests would be protected by representatives on the boards of directors. Regional commissions coextensive with each railroad system would handle local matters, subject to the final authority of the Interstate Commerce Commission.

The Interstate Commerce Commission has made proposals of a general character looking to an improvement in the situation, most of which are renewals of recommendations made in their annual reports. They include empowering the commission to prescribe minimum as well as maximum rates, removal of the existing limitations upon the power of railroads to coöperate, which would mean the permission to pool earnings and traffic and to agree upon rate schedules; federal regulation of security issues and the emancipation of railroad operation from financial dictation; the expansion of the common use of terminals and equipment; and the establishment of a coöperative relationship between federal and state authority. This last suggestion does not apparently contemplate any legislation for its enforcement, but rather the working out of a plan of harmonious coöperation through voluntary agreement.

The official railroad plan was presented to the Senate Committee by the Association of Railway Executives, representing virtually all the railroad corporations of the country. Their scheme separates the administrative from the judicial functions of regulation. It creates a

Department of Transportation with the Secretary as a member of the President's cabinet, to whom the administrative duties are entrusted. He has power to approve or disapprove rates, which are to be initiated by the railroads, and he may suspend them for not to exceed sixty days, and refer them to the commission for determination. He recommends general railroad policies to the President. He has power to reroute traffic, to readjust the use of terminal facilities, and to unify the whole transportation system in a national emergency. The principal function of the Interstate Commerce Commission is the review of rates upon complaint, and it is to be guided in its decisions by a statutory rule of rate-making laid down by Congress, which shall provide not only for the reasonableness, but also for the adequacy of rates. Wage costs are to be recognized in rate-making. Rates approved by the Secretary of Transportation are to be held presumptively reasonable. The Commission is to prescribe minimum as well as maximum rates, and to pass upon the relation of rates and upon differentials. Regional commissions are to be created under the jurisdiction of the Interstate Commerce Commission. Compulsory federal incorporation, with provision for consolidation after approval by the Secretary of Transportation, is proposed. There is to be exclusive federal regulation of all railroad rates and of the issue of securities. New construction is to require a certificate of convenience, and provision is made for the modification of the legal limitations upon pooling, rate agreements, and acquisition of interest in other carriers. A wage board consisting of representatives of labor, the railroads and the public is to be constituted under the Secretary of Transportation, and pending its investigation and report, no action is to be taken by

either side that would interfere with the movement of commerce.

A plan far less revolutionary in scope, which attempts to secure the same results without disturbing the character or form of our existing railroad system, is that submitted by S. Davies Warfield as president of the National Association of Owners of Railroad Securities. This plan calls for the fixing by Act of Congress of a minimum rate of return on railroad property, to be maintained by an adjustment of the rates. Earnings in excess of the fixed rate are to be divided, under the direction of the Interstate Commerce Commission, between the employees and the corporations, the latter to use their portion for railroad betterments. A national corporation, directed by trustees consisting of the nine Interstate Commerce Commissioners and eight railroad men, is to finance the present emergency and provide an agency to purchase equipment and handle problems of unification. There are to be regional commissions with appeal to the Interstate Commerce Commission, which shall coördinate their work with the state commissions, act as wage conciliation boards and in coöperation with the Interstate Commerce Commission, supervise the issue of securities.

Other plans embodying in many cases policies similar to those described, have been suggested by individuals and organizations, both in the Senate hearings, and in occasional addresses and articles, all seeking in one way or another to remove existing obstacles to the provision of an adequate transportation service, but those that have been analyzed are sufficiently typical to indicate the general trend.

In conclusion there are presented in summary form the principles that in the judgment of the writer should be incorporated in any scheme adopted, if we are to

secure under private operation the public service that we desire. Any adequate discussion or defense of these propositions must await an opportunity for fuller treatment.

1. A problem that has long been recognized, and that is in the mind of almost every one who has discussed the situation, is that arising from the existence in the same territory of roads unequally equipped to compete with each other. This inequality may be due to natural causes, such as the fortunate or unfortunate location of the original line, or to the fact that one road has been the victim of financial manipulation and has suffered from unprogressive management, while the other has escaped both. But whatever the cause, the fact remains that if both roads charge the same rates for the same service, and that is of course a necessity, then a rate that is high enough to meet the financial requirements of the weak road will be too generous for the strong one, and a rate reasonable for the well equipped road will put the other out of business. For the very obvious reason that the Association of Railway Executives includes both kinds in its membership, it did not squarely meet the issue, merely suggesting that a fair average rate should be charged for the service, and that roads that could not live under such rates would eventually be absorbed in the larger roads. My own belief is that voluntary consolidation will not succeed, that there must exist more than the permission to consolidate, that it will not be to the interest of the more prosperous roads to dilute their earnings, and to carry the burdens of their less fortunate neighbors. There should be compulsory consolidation of the railroads, under federal charters, into a relatively few systems, in such a way that the earnings of weak and strong roads could be pooled and adequate service assured in the sections now inadequately and inefficiently

served. This does not necessarily mean a regional division of railroads into groups of uniform size. In fact, this would be undesirable if as a result it eliminated all competition in service, a valuable incentive in private operation. Rather should it create large systems, constructed to meet traffic and commercial requirements of the different sections of the country, with consolidation carried far enough to do away with wasteful competition over inadequate and roundabout routes.

2. These federally constituted corporations should be organized with a capitalization based as nearly as possible upon actual value. The government should guarantee a minimum return to the railroads upon their property employed in the public service, and should permit a somewhat higher return. Any excess earnings beyond this legal maximum should be distributed among the government, the railroads, and the employees. The government's share should be applied to meeting the guaranty on roads that have failed to earn it. This guaranty would be expected to restore the credit of the railroads and enable them to raise the necessary capital for extensions and improvements. Permission to take for their own benefit earnings in excess of the guaranty should furnish the necessary incentive to efficient operation.

3. All security issues should require the previous authority of the Interstate Commerce Commission, which should pass upon the proposed use of the funds and oversee their expenditure. This provision, together with the government guaranty of earnings, would go far to eliminate the evils of banker interference in railroad management. The banker will still have his function, but his strangle hold will be released, and he will be deprived of the pastime, occasionally indulged in, of wrecking railroad properties for the benefit of himself and his friends.

4. All rate-making power, state and interstate, should be placed under the authority of the Interstate Commerce Commission, the commission to have power not only to review rates on complaint, but as now to take the initiative in an investigation leading to a revision of rates. There should be left to the states all police powers relating to the control of operation within their borders, but the transportation industry has become so essentially national in character that state interference with rate-making is now hampering in its effects and largely unnecessary. In this connection, it is suggested that the period of suspension of rates now possessed by the commission is unreasonably long when all factors are considered and might well be shortened. Provision could be made for extension of the time of suspension when protracted hearings covering schedules of rates for wide areas were involved. The commission should have power to prescribe minimum as well as maximum rates and to determine the relation of rates.

5. A statutory rule of rate-making, such as that suggested by the Association of Railway Executives, should be adopted by Congress as a guide to the Commission. It should declare that rates should not only be reasonable and nondiscriminating, but adequate to provide a safe and satisfactory service, to ensure adequate wages to employees, and to provide a level of earnings that would protect the investment and attract the new capital needed in the public interest. This rule is a natural accompaniment to the government guarantee of a minimum return. The two should go hand in hand. Altho many insist that the power of the Commission is sufficient under existing law to meet all the requirements of this proposed rule, there is evidence in decisions of the Commission that at least certain members of that body are inclined to limit their purview to the question

whether proposed rates are reasonable or not, and are disposed to hold that the general financial condition of the carriers is a matter beyond their jurisdiction.

I am not one of those who believe that all the financial troubles of the railroads are to be laid at the door of the Commission. In fact, I believe that regulation by the Commission has been of a very decided net advantage. Yet greater generosity on its part might well be encouraged. The credit situation of the railroads is the resultant of many causes, the relative importance of which it would be difficult to estimate. The variety, extent and conflict of state regulation has been an important factor. The persistence of Congress in maintaining and strengthening all laws for the preservation of the competitive principle has been a hampering influence. The exhaustion of the more attractive forms of railroad investment, such as first lien bonds, and the increasing attractiveness and stability of other forms of investment have diverted capital funds. There is the often conscienceless and even criminal character of banker management, which has wrecked particular properties, and placed all railroad securities under suspicion. Railroad officials and directors could have done much to offset this influence, had they been free to denounce these instances of financial jugglery, to show that they were isolated and exceptional cases, and that the large proportion of railroad finance was handled on a sound and honest basis. Instead, they have injured their own credit by constantly insisting that they had none. Finally, there is the disparity between income and expense, which has had its origin not in the perversity of the Interstate Commerce Commission, but in the general upward movement of prices, a movement that has affected everything the railroad buys, including labor, but has left untouched the prices at which the railroads' own product is sold.

6. The jurisdiction of the Interstate Commerce Commission should be extended to give it greater power over construction and service. The roads, being federally incorporated, should be permitted to make extensions only after the issuance by the Commission of a certificate of public convenience. Power should rest with the Commission to develop greater coöperation in the use of terminals, in the pooling of equipment, and in the elimination of unnecessarily long hauls. With them should reside the power to approve pooling and traffic agreements, if they seemed desirable from the public standpoint, altho the plan of consolidation here suggested would probably render such agreements to a large degree unnecessary.

7. Provision should be made, through the creation of a wage board, for the orderly settlement of wage controversies that cannot be adjusted on the individual railroads, and the law should forbid any interruption of commerce or any organized preparation therefor, during the period of investigation and report. Such a board should not be constituted after the fashion of an arbitration board, with one member representing the public, who inevitably becomes an umpire between contending factions, and who by the very necessities of the case is incompetent to pass upon the complicated issues involved. Such a board should be constituted equally of employers and employees, and their decisions should be the outcome of friendly and thoro discussion.

8. Finally, it should be clearly recognized by railroad men as well as by Congress that we are legislating for a public service, that the public interest is not to be considered merely as coequal in importance with the interests of private capital invested in the undertaking, but that it is a predominant interest. This period through which we have just passed was not a test of

government operation. However, the American people, in turning the roads back to their owners have not finally disposed of the question. Rather are they putting private operation on trial. Unless the owners and managers of these properties fully recognize the obligations that again rest upon them, and develop a passion for public service that subordinates to it every other consideration, the demand for nationalization is bound to revive.

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May 19, 1919.

